

Testimony of Thea M. Lee
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Before the International Monetary Policy and Trade Subcommittee of the
Financial Services Committee of the House of Representatives
on the World Bank's International Development Association (IDA) Funding

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Mr. Chairman, members of the Subcommittee, I thank you for the opportunity to speak to you today about the World Bank's concessional lending arm, the International Development Association (IDA), on behalf of the thirteen million working men and women of the AFL-CIO.

I would also like to offer some comments today on behalf of a broad civil society coalition of development, religious, environmental, gender advocacy, and labor organizations, with whom we have been working to promote positive proposals for World Bank reform. I would like to submit the full report prepared by this coalition for the written record. It is titled "Responsible Reform of the World Bank: The Role of the United States in Improving the Development Effectiveness of World Bank Operations," and it was published in April 2002.

The report's proposals focus on:

- ? Increasing the amount of resources poor countries can dedicate to development;
- ? Making the World Bank more effective and accountable; and
- ? Ensuring that Bank resources are used to make productive investments in human development, instead of being used to support policies that harm the environment, workers, and the poor.

The U.S. Congress has an excellent opportunity to push for meaningful reform of World Bank policies as it authorizes and appropriates the IDA replenishment. Congress should ensure that the hundreds of millions of taxpayer dollars that are provided to the World Bank this year do not fund more failure at the institution. Reforms to cancel poor country debt, improve transparency, achieve positive health and education outcomes, ensure respect for core worker and gender rights, and protect the environment can deliver positive change to hundreds of millions of people in poor countries.

Tying these essential reforms to Congressional funding decisions is the most effective way of ensuring: first, that our government (via the U.S. Treasury Department) forcefully conveys these concerns to the Bank; and, second, that the Bank is motivated to comply. Past experience with weaker directives (mainly with respect to asking Treasury to ask our executive director at the World Bank to use voice and vote to achieve policy reform) has yielded disappointing and inconsistent results.

A broad range of organizations has united to support a package of policy reforms that will improve outcomes at the World Bank. This reform package would not interfere with U.S. commitments to fund IDA, though it would condition future IDA funding increases on progress in adopting Congressionally designated reforms – just as the Treasury Department itself has pledged funding increases conditioned on performance indicators.

Generate More Resources For Development

1. Debt Cancellation: While the U.S. has canceled bilateral debts owed by poor countries, many of these countries continue to struggle with debt owed to multilateral institutions like the World Bank. The Bank should provide deeper and broader debt relief, using primarily its own resources, to countries that will apply funds freed up by debt cancellation to poverty reduction programs. This debt relief should not be conditioned on policies harmful to the poor, workers, or the environment.
2. Grants vs. Loans: Although the terms of IDA loans are concessional, they still place an untenable debt burden on the poorest countries. We have supported U.S. efforts to promote a policy requiring fifty percent of new assistance to IDA-only countries on grant terms, while ensuring that overall levels of assistance to these countries are maintained or increased, the grants are used for pro-poor expenditures, and environmental and social safeguard policies are complied with. While the final IDA agreement did not go this far, we believe it is a step in the right direction. This agreement will require increased contributions from donor countries, and we urge the Congress to ensure that these funds are available from our government. In addition, All the OECD countries should commit to a significant increase in their overall aid budgets by 2007 in order to ensure that the Millennium Goals are reached.

Ensure Accountability and Effectiveness

3. Increase Transparency: U.S. leadership in the past has led to some improvements in the Bank's information disclosure policies. The U.S. should press for further transparency, including reforms that require the Bank to open its Board of Directors' meetings to the public, disclose transcripts of these meetings, and release all key documents prior to Board consideration of a loan. The U.S. Treasury Department should also set a good example for other countries by posting its own Board statements and reporting regularly to Congress on compliance with its mandates.
4. Assess Social and Environmental Impacts: While the Bank conducts environmental impact assessments of projects (for example, a power plant or a road) and sectoral reforms, it does not assess the potential impacts of other types of lending, including structural adjustment. Structural adjustment loans make up an increasingly large percentage of the Bank's lending portfolio, and they have profound social and environmental impacts. The Bank should perform upstream environmental and social assessments for *all* types of loans to analyze the environmental, poverty, gender and worker impacts of the proposed action and eliminate or mitigate any negative impacts that have been identified.

5. Improve Poverty Reduction Strategies and Donor Coordination: The poverty reduction strategy paper (PRSP) process needs reform if it is to live up to its potential to truly engage a broad range of stakeholders in a meaningful participatory process of developing country-owned strategies and benchmarks for reducing poverty. Despite the rhetoric, many critical stakeholders, including trade unions, have been excluded from the PRSP process or brought in too late to have meaningful input. Technical assistance is needed to enhance participation and accountability, and IDA directors should track the extent to which civil society views have been incorporated into PRSPs. Countries should be required to list civil society recommendations and explain why they have not been included.

The U.S. should work to ensure that the PRSP process does not unduly delay debt relief through the HIPC program. At the same time, it is crucial to increase genuine civil society participation at all stages of the PRSP process and ensure coherence between the PRSP and donor lending by increasing the public disclosure, debate, and review of policies attached to IFI lending.

6. Measure Health and Education Outcomes: The Bank must be held more accountable for the results of its programs, especially in core lending areas for IDA such as health and education. This is particularly critical, as an increasing proportion of health lending is for “sectoral reform” rather than for concrete primary health care projects. The Bank’s own staff and internal evaluation unit have acknowledged that most health reform lending does not effectively track or measure health outcomes. A number of health reform programs have, in fact, been correlated with worsened health outcomes. The U.S. should oppose health or education loans or grants that do not include mechanisms for measuring outcomes.

Do No Harm to the Environment, Workers, Women, and the Poor

7. Respect Workers’ Rights: Many World Bank loans directly undermine internationally recognized core workers’ rights in borrowing countries, despite growing research showing that compliance with core workers’ rights contributes to economic growth, more equitable distribution of income, and stronger democratic institutions. Declining labor standards in developing countries affect American workers’ jobs and wages.

The U.S. Congress should use the IDA replenishment process to require the Bank to adopt enforceable and comprehensive policies to protect core workers’ rights. In particular, the Bank should create a screening mechanism for all of its lending to ensure that loan conditions do not undermine core workers’ rights. The Bank should also assess the impacts of its loans on employment, wages, and income inequality, in close cooperation with the ILO and with local trade unions. Trade unions must be able to participate meaningfully in World Bank programs, and can only do so if full information about Bank lending is available to the public under vastly improved disclosure procedures.

The Treasury Department failed to produce the Congressionally mandated report on core labor standards at the international financial institutions in 2001 and has consistently failed to show convincing evidence of progress in any of the Congressionally mandated objectives. This dismal record needs urgent improvement.

8. Promote Environmental Sustainability: The U.S. should push the Bank to ensure compliance with environmental and social policies, reduce support for fossil fuel and mining projects, increase support for energy efficiency and renewable energy technologies, oppose dam projects that don't conform to World Commission on Dams recommendations, promote responsible forest protection policy, and advocate for biological or environmental pest control methods.
9. Target Gender Equality: The World Bank's own research demonstrates that societies with greater gender discrimination tend to experience more poverty, slower economic growth and inferior living standards than societies with greater gender equality. Today seventy percent of the world's poor are women, yet most Bank loan benefits accrue to men. The U.S. should ensure that all Bank project and adjustment operations undertake gender analyses and target women as necessary to promote gender equality.
10. End Harmful User Fees for Primary Health and Education Services: User fees imposed for primary health care and primary school have led to reduced access to critical basic health services, with increases in illness and maternal and child deaths, and reduced school enrollments (especially for girls). At the same time such fees have provided relatively small increases in budgetary support, sometimes not even covering the cost of fee collection, as in the case of health clinic fees. Data from UNICEF, the World Bank itself and from the World Health Organization (WHO) show that exemptions intended to protect the poor have largely failed. The U.S. should oppose any Bank program that includes user fees for primary health or education services in poor countries.
11. Target HIV/AIDS: World Bank loan programs can actually end up exacerbating the devastating crisis of HIV/AIDS in borrowing countries by imposing prohibitive fees on the users of health services, increasing economic and social dislocation, and miring poor countries in unpayable debt. The Bank should measure the impacts of its loan programs on the incidence of HIV/AIDS and other infectious diseases, support bulk procurement of pharmaceuticals to treat these diseases, and finance its HIV/AIDS programs with grants instead of loans.
12. Do Not Increase the Cost of Basic Services for the Poor: The Bank often prescribes measures that remove subsidies for poor people, denying them access to basic services such as water, health, and education. The U.S. should oppose actions that seek to increase cost recovery from persons with incomes of less than \$2 a day to finance basic public services in IDA countries.
13. Stop Undemocratic Reductions in Public Ownership: The U.S. should ensure that privatization transactions are conducted in a transparent manner and that policies and regulatory regimes are in place to protect workers and vulnerable groups of society.

14. End Undemocratic Trade and Investment Deregulation: The U.S. should vote against any loan, grant, document or strategy that promotes non-transparent trade and investment deregulation in a country with a democratically elected national legislature unless the legislature has approved the policy first.
15. Do Not Undermine Tobacco Control: Experience suggests that the opening of tobacco markets leads to an increase in smoking rates. The U.S. should oppose any Bank program that reduces the public ownership or government regulation of any tobacco enterprise.

The World Bank should be an effective global development institution. The Bank cannot achieve this status – and does not deserve increased public support – while it continues to contribute to an unending cycle of debt; fails to systematically measure the full social and environmental impacts of its programs; funds projects which hurt the environment, workers, women, and the poor; and operates behind a veil of secrecy. Americans are willing to devote more resources to poverty alleviation initiatives around the world, but they must have faith that these funds will truly contribute to equitable, sustainable, and democratic development. The proposals described here are designed to help the World Bank meet this important challenge.